

Message Text

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ORIGIN EB-07

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-09 ISO-00 ERDA-05 FEA-01

ACDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03

NRC-05 /118 R

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EA/IMS - ADORNHEIM

EUR/SOV - JCOLBERT

NEA/IRN - BMORTON

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R 270048Z MAR 75

FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN

AMEMBASSY JAKARTA

AMEMBASSY LAGOS

AMEMBASSY MOSCOW

C O N F I D E N T I A L STATE 069117

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: USG CONSIDERATION OF FUTURE ROLE FOR LNG

1. SINCE US FIRMS ARE ENGAGED IN LNG NEGOTIATIONS WITH
HOST COUNTRIES, EMBASSIES MAY FIND USEFUL INFORMATION
BELOW ON CURRENT USG POLICY CONSIDERATIONS RELATING TO LNG.
(A SEPARATE CABLE HAS BEEN SENT TO ALGIERS).

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2. FYI - THE ADMINISTRATION'S ENERGY RESOURCES COUNCIL IS

CURRENTLY ENGAGED IN A IGH-LEVEL REVIEW OF LNG AND WILL PROBABLY DEVELOP A COMPREHENSIVE LNG POLICY WITHIN A FEW MONTHS. WHILE IT IS TOO EARLY TO PREDICT THE POLICY LINE, THERE IS GROWING SENTIMENT HERE AGAINST NEW LNG IMPORTS FOR THE FOLLOWING REASONS:

A) INCREASING LNG IMPORTS RUNS COUNTER TO OUR NATIONAL OBJECTIVE OF REDUCING OUR DEPENDENCY ON FOREIGN ENERGY SUPPLIES.

B) THE LARGE CAPITAL COSTS OF THE PROJECTS AND THE HIGH PRICE BEING DEMANDED FOR LNG RAISES SERIOUS QUESTIONS AS TO WHETHER ADDITIONAL LNG IMPORTS ARE IN OUR INTEREST.

C) LNG IMPORTS MAY BE LESS SECURE THAN OIL IMPORTS. BECAUSE OF THE SPECIAL LIQUEFACTION AND TRANSPORT FACILITIES INVOLVED, THE LNG SUPPLY LINE WOULD LACK FLEXIBILITY. MOREOVER, THE DEPENDENCE WOULD BE CONCENTRATED GEOGRAPHICALLY RATHER THAN SPREAD OUT THROUGH THE COUNTRY AS A WHOLE.

D) SINCE LNG CONTRACTS ARE FOR 20-30 YEARS, WE WOULD BE LOCKED INTO HIGH COST LNG SUPPLIES EVEN IF OIL PRICES FALL IN THE FUTURE OR IF NEW CHEAPER ENERGY SOURCES COME ON STREAM.

3. THE ROLE OF LNG IN OUR NATIONAL ENERGY BALANCE IS CLOSELY CONNECTED WITH OTHER ADMINISTRATION ENERGY PROPOSALS. IF CONGRESS APPROVES DEREGULATION OF DOMESTIC GAS PRICES, DOMESTIC SUPPLY SHOULD INCREASE SIGNIFICANTLY AND DEMAND WILL BE DAMPENED, BOTH IN TERMS OF REDUCED USAGE AND SHIFTS BY SOME INDUSTRIAL USERS TO OTHERS TYPES OF ENERGY. WITH DEREGULATION- THE NEED FOR FOREIGN GAS SUPPLIES WILL BE SUBSTANTIALLY REDUCED.

4. THERE ARE CURRENTLY NO ACTIVE LNG APPLICATIONS BEFORE THE FPC. END FYI.

5. WE WILL ADVISE AS SOON AS THE ERC HAS CONCLUDED ITS WORK ON LNG. IN THE INTERIM, WE THINK IT WISE FOR
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EMBASSIES TO CONTINUE TO BE INTERESTED OBSERVERS OF LNG NEGOTIATIONS AND HELP FACILITATE CONTACTS BETWEEN REPRESENTATIVES OF US FIRMS AND HOST COUNTRY ENERGY OFFICIALS. CARE SHOULD BE TAKEN, HOWEVER, TO AVOID GIVING THE IMPRESSION THAT THE USG OFFICIALLY SUPPORTS CONCLUSION OF NEW CONTRACTS TO PROVIDE LNG TO US. KISSINGER

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